



MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

The Blended Finance Roundtable

A FIT Report



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Alex Sarac

BCLP – London Blended Finance
Conference

Berwin, Leighton, Paisner – Blended Finance Conference

Convened with *global development thought leaders and financiers* to **highlight MCC's leading role within the Blended Finance arena** and to broaden understanding of our work and impact.

Highlights



The Venue

Berwin Leighton Paisner, London
14 November 2017



Partners

BLP Law, Dalberg



Format

Interactive and action-oriented. Discussions focused on sharing experiences, lessons and best practices in using development resources to mobilize private capital flows into projects with development outcomes



Participants

Over **75 senior officials** from the private sector, development institutions, and regional development banks along with global development thought leaders and financiers



Outcome

Actionable, informed strategies for unlocking capital flows at MCCC are underdevelopment
Dialogue lead to a better understanding of the needs of private capital by development partners

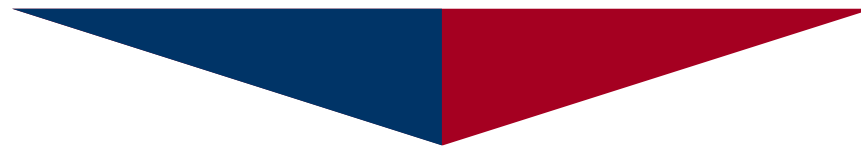
“Billions to Trillions” through Blended Finance

\$2-3 Trillion SDG Funding Gap:

- 80% of this for infrastructure related to water, sanitation, transportation, power, public health and other much-needed public services.

Global Capital Flows:

- Only a fraction of worldwide assets from banks, pension funds, insurers, foundations and companies are invested in sectors with development impact.
- Despite emerging and frontier market contributions to global GDP, they receive only a fraction of global capital flows because of risk and market inefficiencies.



Mobilizing private capital towards development outcomes at scale requires a blended finance ecosystem with catalytic intermediaries and bankable projects

Infrastructure investments are also impacted by market risks

Despite high returns and low default rates, investors still see emerging markets infrastructure as subject to downside risks



Macro Risk

- **Political**
- **Regulatory**
- **Currency:** projects collect revenues in local currency but debt repayment is in foreign currency



Commercial Risk

- **Credit/Counterparty:** The risk of default from borrowers on debt repayments
- **Demand:** Risk around commercial viability and sales
- **Liquidity:** The inability to exit/sell an asset when desired



Finance Risk

- **Access to Capital:**
Risk of not being able to secure financing



Infrastructure Risk

- **Construction/ Operational**
- **Off-take:** being unable to secure long-term contractual commitment for purchase of a resource.

Agenda



8:00 am – 5:00 pm

Session 1

Why are blended finance principles needed? Or Perspectives on Blended Finance Principles

Moderator: Alexander Sarac, *BLP Partner, Projects, Energy & Infrastructure Finance*

Panelists:

- Chris Clubb (*Convergence*)
- Paul Horrocks (*OECD*)
- Joyita Mukherjee (*IFC*)
- Colin Buckley (*CDC*)
- Kay Parplies (*European Commission*)
- Lisbet Peters (*d.Capital*)
- Peter Sullivan (*Citibank*)
- Scot Mackin (*Denham Capital*)

Session 2

How can blended finance be used to get deals to closure? An Analysis of Survey findings

Moderators: Michael Cupit (*E&Y*) and Christopher Edgerton Warburton (*Lions Head*)

Session 3

Has Blended Finance worked? Learning though Experience, Lessons and Best Practices

Moderator: Soren Andreasen (*EDFI*)

Panelists:

- Philippe Valahu (*Private Infrastructure Development Group*)
- Las Perera (*GuarantCo*)
- Ana Hajduka (*Africa GreenCo*)
- Isdert Boersma (*FMO*)

Attendees

Development Finance
Institutions

International Development
Agencies

Infrastructure Funds

Private Equity

Foundations

Industry Experts

Africa Trade Insurance Agency
Agence française de développement (AFD)
AIIM
Allianz Global Investors
AMEA Power
Arup
Atkins Acuity
Aviva Investors
Bechtel
CDC
Citi
Convergence Finance
Cross Boundary
D Captial
Dalberg
Deloitte
Denham Capital
Department for International Development
EDFI
European Commission
EY
FMO
Guarantco

IFC
JICA
Lion's Head Global Partners
McKinsey & Company
Mott Macdonald
MUFG
Nedbank
OECD
Overseas Private Investment Corporation
Palladium
Private Infrastructure Development Group
Royal BAM Group
SECO, Switzerland
SIDA
Standard Chartered Bank
StandardBank
Tanzania Development Bank
The Bank of Tokyo-Mitsubishi
USAID - Power Africa
Wilberforce Chambers





Alexander Dixon, Sr. Director and
Jason Bauer, Director

Why Blended Finance

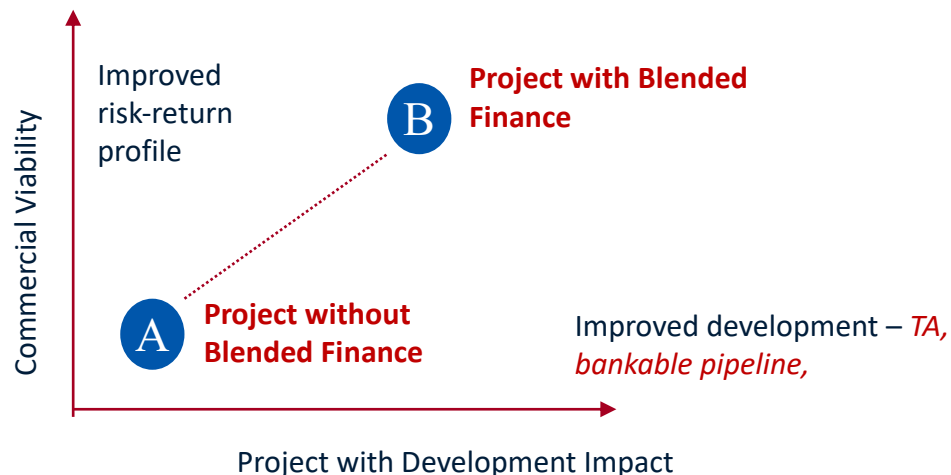
Global Sustainable Development annual funding gap:

- \$ 2 T
 - 3% GDP
 - 14% annual savings
 - 1.1 % of capital market value

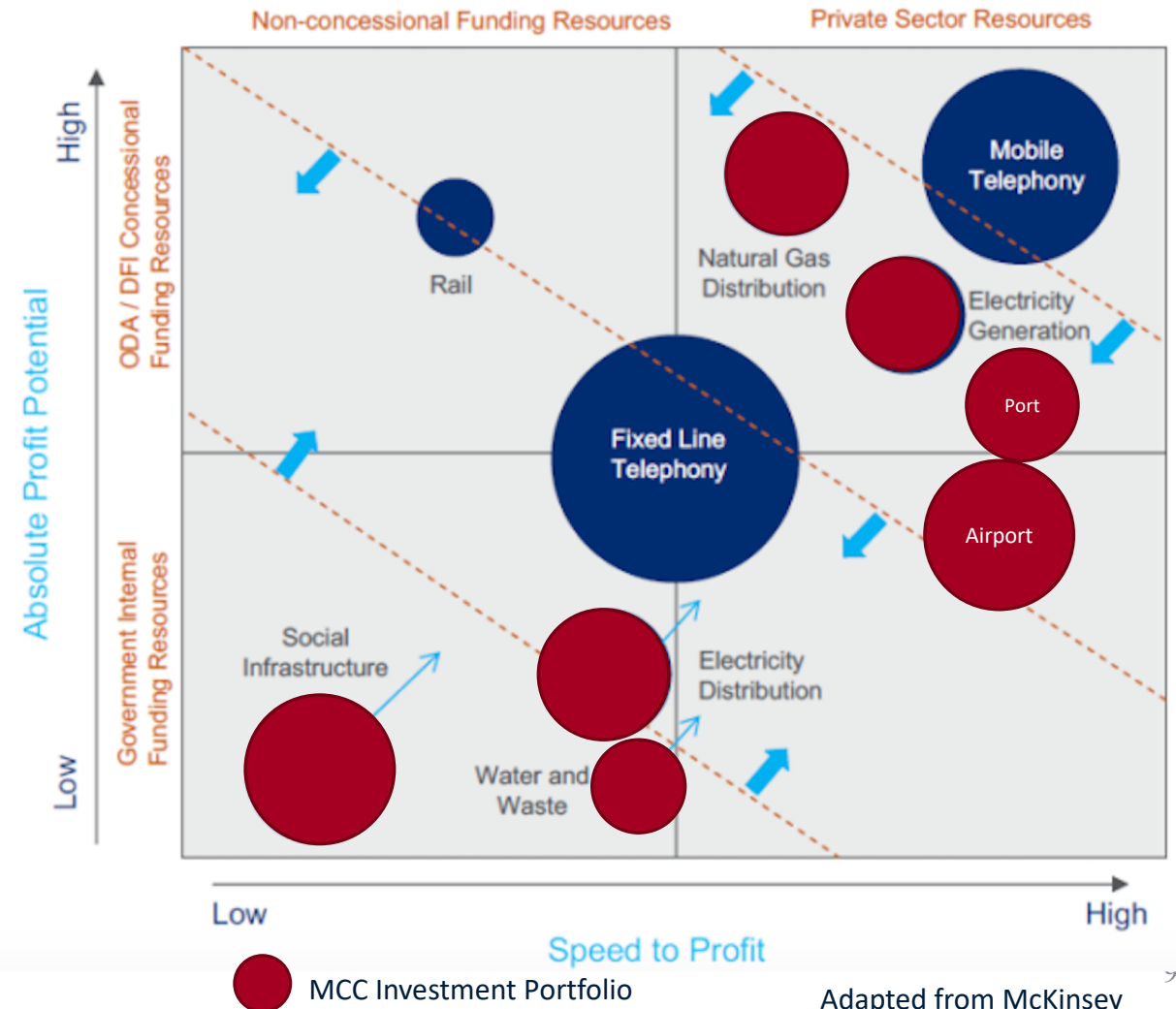
Global Investment Gap by Sector

- **Power** - \$ 530 B
- **Transport** - \$ 260 B
- **Water & Sanitation** - \$260 B
- **Agriculture** - \$ 260 B

Blended finance tools and instruments can be deployed **improve the risk-return profile** of projects with development impact to attract commercial funding and **close the investment funding gap**



Shift in Sector Funding



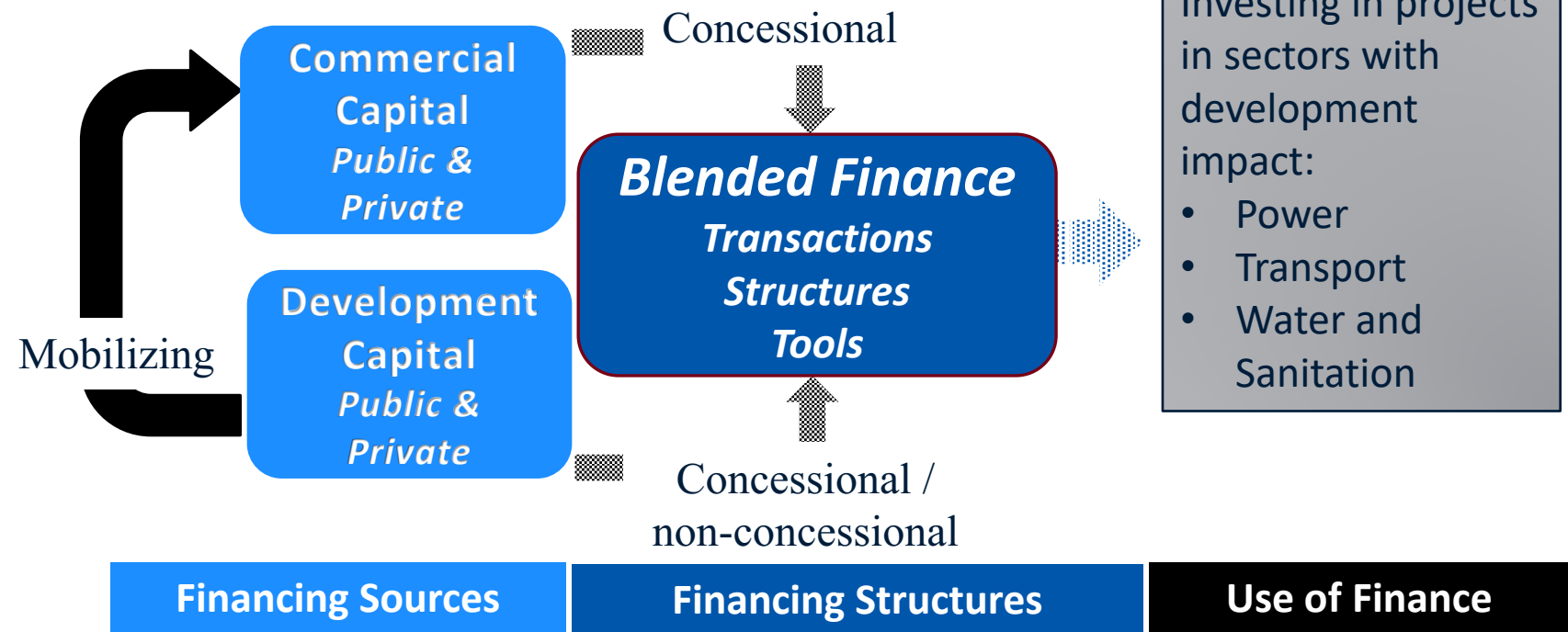
The World of Blended Finance

Blended Finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries

By the numbers....

- 17** OECD DAC Members engaged in Blended Finance
- 16** Blended Finance facilities launched from 2000 – 2016
- 4.7** Historic average leverage ratio of blended finance transactions

How it works...



OECD Blended Finance Principles

The Development Assistance Committee of the OECD, a committee of bi-lateral donors in which the US is a member, outlined the Blended Finance Principles at the Roundtable

Principles	Alignment with MCC	MCC Tools and Portfolio
Anchor Blended Finance use to a Development Rationale	MCC's core mission: <i>Reducing poverty through economic growth</i>	Blended Finance Instruments and Vehicles
Design Blended Finance to Mobilize Commercial Finance	MCC Compacts: <ul style="list-style-type: none"> Identifies constraints to growth Target barriers to investment Expands pipeline of bankable projects Aligns private capital with development priorities 	Innovation Grants and Grant Facilities Public Private Partnerships Viability Gap Financing Technical Assistance
Tailor Blended Finance to Local Context	MCC's unique model <i>increases partner country capacity</i> and catalyzes results by <i>incentivizing good policies and reform</i>	Enabling Environment and Sector Reforms Investment Climate Reforms Utility Reform and Turnaround
Encourage Effective Partnering in Blended Finance	MCC provides a <i>platform for mission aligned development partners</i> to make investments at scale into vetted projects.	Innovation Grants and Grant Facilities Public Private Partnerships Viability Gap Financing
Monitor Blended Finance for Transparency and Impact	MCC monitors and tracks progress throughout compact lifetime	Quarterly Progress Reports Evaluations M&E Portfolio

Blended Finance: By Design

MCC is uniquely positioned within the USG, finance sector and wider develop community to play a more catalytic role in the strategic use of development finance to mobilize private capital flows to our partner countries and views MCC as a Builder, Catalyst and Dealmaker for blended finance transactions



Builders

Strategically invest in public infrastructure with our partner country.
Create **enabling environments and improved investment climates** through policy and institutional reforms
Support regulatory reforms necessary to unlock capital and strengthen local capital markets



Catalysts

Provide **strategic, financial and technical advisory** to create pipelines of investable opportunities.
Crowd in private capital to advance compact goals or test innovative solutions
Manage, Mitigate and Share risk associated with investing in new markets and sectors
Unlock investment and growth opportunities for U.S. companies in MCC's partner countries



Deal Makers

Provide strategic grant capital to crowd in commercial finance
Offer pathways to scale and capital to create markets for innovations and proven business models.
Bring transactions and financially viable PPP projects to market that meet international standards

MCC's Blended Finance Portfolio Goals

- ❑ **Increase Leverage**: Make MCC resources and funding more strategic by increasing capital flows into investments that deliver development outcomes and ensure long-term sustainability of our work
- ❑ **Strengthen Impact**: Finding new sources of capital (domestic and international) for investment in public infrastructure and services is necessary to drive social, environmental and economic progress
- ❑ **Improve Investment Environments**: By addressing barriers to investment and improving market conditions, MCC's blended finance approach helps align returns in development related investments with market expectations and perceived risks

Blended Finance Tools

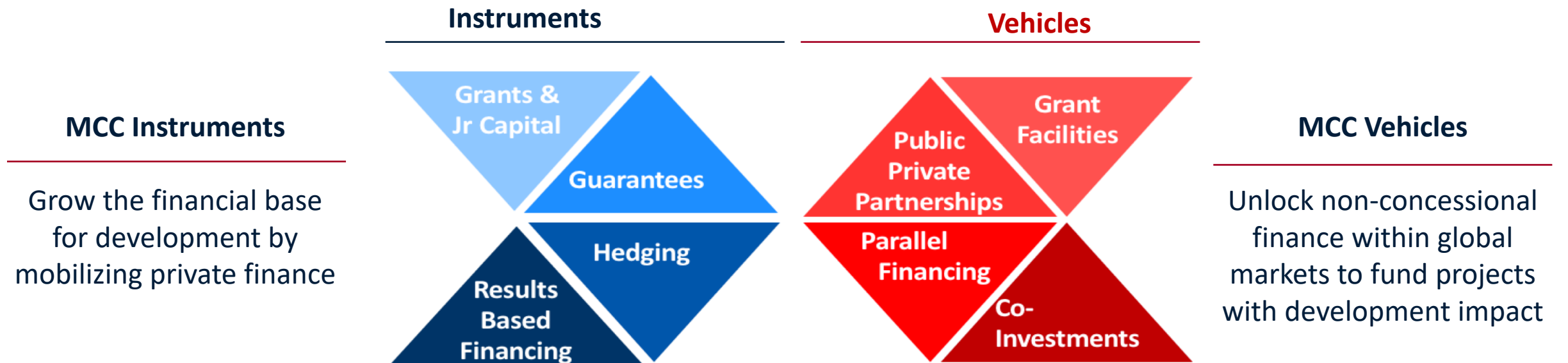
Instrument	Description	Type	Risks Addressed	Use of MCC Funds
Direct Investment or Viability Gap Finance	Direct investment into a transaction, project or fund	Junior / Subordinated Capital	Credit, liquidity, construction, operation risks, access to capital	<ul style="list-style-type: none"> • Fund partner country's equity stake in project • Provide VGF to make project commercially viable
		Loan Syndication	Political, liquidity, credit risks, access to capital	<ul style="list-style-type: none"> • Purchase of partial risk/credit guarantee • Letter of credit • Funding of reserve account.
Results Based Finance	Provides incentives to achieve desired result	Impact Bonds	Operation, output, construction risks	<ul style="list-style-type: none"> • Design and structuring fee of bond • VGF to make commercially viable • Purchase of partial risk/credit guarantee
Grants	Financial contribution with no expected repayment	Technical Assistance	Access to capital, operational risks	<ul style="list-style-type: none"> • Transaction advisory / feasibility studies • Technical assistance
		Grant Facilities	Lack of bankable pipeline	<ul style="list-style-type: none"> • Fund transaction advisory services and feasibility studies
Hedging	Contractual instruments to help manage risks	FX Hedge	Foreign exchange risk	<ul style="list-style-type: none"> • Pay premium to cover FX hedge

Blended Finance Instruments and Vehicles



Blended Finance

Deploying the right tools...



To take advantage of unprecedented opportunity ...



The Drivers for Success



Focus

Build Blended Finance Portfolio

- Develop MCC **Blended Finance Strategy**
- Outline Framework and refine MCC's **Blended Finance Toolkit** – including blended finance instruments and vehicles
- Strategically engage other Blended Finance **stakeholders** (DFIs, European donors, foundations, banks, etc.) around MCC's work.
- Conduct Blended Finance **training and skills development** for FIT and IEPS division



Operational Expertise

Strengthen Practice

- **Financial Ecosystem** analysis and **Productive Sector** reviews
- **Quantify constraints** and identify where **business strategies** align with compact objectives
- Identify policy, institutional and regulatory **reforms** that catalyze private sector investment and market development.